

High Deductible Health Savings Accounts

Do high deductible HSAs save money?

Nothing in the design actually reduces health care costs through reduced pricing or quality and efficiency improvements. The design simply shifts the first \$1000-\$5000 dollars of health care from the employer to the employee. That does not reduce the cost of health care -- it simply shifts the cost to employees.

But what about the claim that if employees have to pay for some of their health care that they will become better consumers and use less costly health care?

The problem with this statement is that most people do not have enough information to know where to get "less costly care." Selecting an oncologist if you have cancer is totally different from buying a car. Who knows which doctors or hospitals are cheaper, and if you have cancer or MS or heart disease, the likelihood that you will shop around for the cheapest providers is not high as your first concern is with staying alive.

The fact of the matter that is 80% of any employer's health care costs comes from people who are really sick (about 20% of the people). These people will always have health care costs that exceed even high deductibles. So, while one could argue that spending below the deductible might be reduced in HSA plans, that is really just tinkering around the edges as this gets at only 20% of the employer's health care costs. Most of the health care costs (80%) are above the deductible and HSAs will simply not get at these costs.

Of course, since these plans pay 100% of all costs after the deductible has been met, the really sick employees with the highest health care costs have no incentive, for example, to use generic drugs over their brand name equivalent. That is because these people will often reach their high deductible limit in the first month or two of their benefit year and for the rest of year the plan will pay 100% of any drug or medical cost.

It was for these reasons that the Congressional Research Service stated, "it would be unreasonable to expect [HSAs] to produce a significant reduction in the nation's health care costs." Similar statements have been made by the National Health Policy Forum, the Urban Institute-Brookings Institution Tax Policy Center, the Commonwealth Fund, and CMS.

Does shifting the cost of health care to employees have any unintended consequences?

Individuals with high deductible HSA plans are more likely to delay or avoid needed care because of cost. According to the EBRI 2006 Survey, they are 38% more likely to skip medication or fill a prescription than individuals in traditional health plans.

For low income employees high deductible plans cause a higher rate of medical debt. For employees earning less than \$35,000 a year even a \$500 deductible would cause 55% of them to accrue medical debt. For people who are ill the percent is 59%.

But don't employees save money on taxes by participating in high deductible HSAs?

Employees who earn below \$52,000 a year have small enough tax liabilities that HSAs generally will not benefit them from a tax sheltering point of view. The median household income in Ohio for 2003 is \$44,160. So for more than half of Ohioans, HSAs are not helpful from a tax savings perspective.